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April 11, 2006

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Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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Re: *Docket Nos. T-02428A-06-0203, T-03346A-06-0203, T-03116A-06-0203,
T-03016A-06-0203 and T-03287A-06-0203*

Dear Commissioner Mayes:

Thank you for your letter of April 6, 2006. It references the April 5, 2006 letter sent to you and other Commissioners by David Blackburn of the Communications Workers of America ("CWA"). We finally were able to secure a copy of the Blackburn letter on April 7.

Initially, I want to stress that I am not aware that Mr. Blackburn ever contacted us concerning this situation. His letter indicates that he sent an e-mail to the Commission's Utilities Division on February 23, 2006. As I explain in more detail below, that was a few days after the CWA and the Commissioners were notified of the Mesa Small Business Customer Care Center job reductions.¹ Unfortunately, Mr. Blackburn's misstatements of a very clear record have raised concerns and I appreciate the opportunity you have given us to set the record straight.

In relation to the Mesa location, Mr. Blackburn states that "this office closure is in direct conflict to what AT&T/SBC indicated" in the Commission proceedings which finally approved the Merger last November. That statement not only is false, but it directly contradicts the CWA's strong support of the Merger as evidenced by written statements filed with the Commission last summer.

The facts are quite clear based on SBC/AT&T's statements to the Commission during the Merger proceedings last year:

(1) Throughout the proceedings, we repeatedly told the Commission that the "old" AT&T had made an irreversible decision to leave the residential and small business mass market. It was a decision forced by federal court and FCC decisions which eliminated the UNE-P platform at TELRIC pricing. As the Commission knows, that decision was not unique to AT&T.

¹ Even with these reductions, AT&T has over 600 employees in Arizona.

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(2) SBC/AT&T had no intention of re-examining that decision because, practically, it could not. The UNE-P option at TELRIC pricing was gone. As you know, the Commission acknowledged that fact at Finding of Fact 26 in Decision No. 68269. As a result, legacy AT&T made the irreversible decision to withdraw from the residential and small business market and began to implement that decision through various measures including shutting down facilities, shutting down systems that supported that business segment and laying off employees.

(3) The effect of AT&T's decision to exit the mass market would continue to be layoffs of employees and closures of facilities dedicated to attracting new customers to the UNE-P platform or supporting those existing customers that had chosen that service. As Mr. Blackburn states in his letter and the CWA acknowledged in its filings supporting the Merger, that decision already had led to the closure of "the Teleconferencing Center in Phoenix, AZ, a loss of 350 jobs, and the Consumer Sales and Service Center in Mesa, AZ, a loss of another 585 jobs."

(4) SBC/AT&T stated throughout the proceedings last year that they could not promise that there would be no further layoffs or facility closings, particularly as a result of this irreversible decision to exit the consumer business.

(5) We, however, did indicate that the Merger itself was unlikely to produce significant layoffs or facility closings locally because SBC's presence in Arizona was minimal and there was little overlap between SBC's and AT&T's current operations.

(6) Finally, we stated that the Merger provided opportunities to bring new innovations to Arizona mass market customers such as the AT&T "Call Vantage" product and other AT&T Labs innovations offered only to the large business customer.

In a certain respect, I understand Mr. Blackburn's attempt to "leverage" the BellSouth merger to his union's advantage. But that does not give him license to misstate the facts concerning what we told the Commission last year or mischaracterize the facts concerning the Mesa Small Business Center layoffs.

AT&T and SBC were honest and straightforward with this Commission relating to AT&T's 2004 pre-Merger decision to exit the residential and small business mass market and expected continuing reduction of AT&T facilities and employees resulting from that decision. AT&T's job reductions at the Mesa Small Business Center in 2006 have nothing to do with the Merger. Rather, AT&T's job reductions were driven by AT&T's decision to leave the mass market in 2004 as a result of federal court and FCC decisions that eliminated UNE-P at TELRIC pricing.

I. AT&T AND SBC ADVISED THE COMMISSION OF POSSIBLE AT&T CLOSINGS AND LAYOFFS IN THE FUTURE DURING THE MERGER PROCEEDINGS.

Mr. Blackburn's statement that AT&T misrepresented its intentions last year is contradicted directly by the evidentiary record from the SBC/AT&T Merger proceeding. Throughout the Merger proceeding—in pre-filed testimony, statements at hearing and responses at Open Meeting—AT&T advised the Commission that AT&T's decision to eliminate marketing to residential and small business customers already had caused facility and employee reductions and would undoubtedly lead to more layoffs and reductions. See Direct Testimony of Tom Peltó dated May 31, 2005, pp. 6-7.

Mr. Peltó's pre-filed direct testimony is replete with references to AT&T closings and workforce reductions resulting from AT&T's pre-Merger decision to cease competing for residential and small market customers: "AT&T had always understood that UNE-P would not be available forever, but now [in 2004] it was clear that UNE-P at TELRIC pricing would be phased out far more quickly than AT&T had previously projected... In the wake of these developments, AT&T made a difficult, but inevitable decision: it had to cease actively competing for residential and small business markets..." Id. at p. 6.

In turn, Mr. Peltó specifically advised the Commission that "AT&T's customer base will dwindle away over time through churn." Id. at p. 7. The natural consequence: "AT&T immediately eliminated or drastically reduced its marketing and advertising activities. AT&T also undertook extensive headcount reductions, principally in the areas of marketing and customer care, and AT&T will continue to scale back customer care functions and institute additional headcount reductions through 2005 as its customer base continues to decline." Id. at p. 7 (emphasis added). Put simply, at least as early as Mr. Peltó's May 6, 2005 testimony, AT&T specifically advised the Commission that additional workforce reductions and closings would occur as AT&T's residential and small business customers dwindled over time. The actions with respect to the Mesa Call Center are a further result of the loss of the UNE-P platform and do not have anything to do with the Merger in Arizona.

In his July 8, 2005 Rebuttal Testimony, Mr. Peltó reiterated those same points: "These developments drove AT&T's decision in the summer of 2004 to stop actively marketing to the residential and small business customer. That decision, in turn, was the driver behind AT&T's employee layoffs, closing of call centers and other operation hubs, and termination of significant sales and marketing activity over the past year." See Rebuttal Testimony of Tom Peltó dated July 8, 2005, p. 3 (emphasis added). In his rebuttal testimony, Mr. Peltó specifically referenced the Mesa call centers: "Arizona was particularly hard hit, however, because AT&T had a call center located in Mesa that primarily supported residential operations." See Peltó Rebuttal Test., p. 4.

On that point, the evidence was undisputed that the closing of AT&T's call centers, including the Mesa Call Center, and further winding-up actions were not Merger-related: "As Staff correctly notes, although AT&T understands that removal of AT&T as a significant proponent for the competitive industry is of concern to the Commission, the reality is that this

outcome has nothing to do with the merger. Instead, AT&T's dramatic shift in business focus last summer [2004] drove AT&T's reduced participation in these types of proceedings, and that trend would have continued even absent the merger." See Peltó Rebuttal Test., p. 4. In his June 24, 2005 direct testimony, Staff witness John Bostwick acknowledged that "AT&T indicated that its recent closing of an Arizona call center was not related to the merger." See Bostwick Direct Testimony dated June 24, 2005, p. 18.

In no uncertain terms, AT&T's closing of call centers and reduction of associated workforce resulted from its decision to leave the residential and small business mass market. The evidence also demonstrated that such closings were not Merger-related and would continue with or without the SBC/AT&T Merger.

II. THE 2006 REDUCTIONS AT THE MESA SMALL BUSINESS CUSTOMER CARE CENTER WERE NOT MERGER-RELATED.

Mr. Blackburn—either deliberately or inadvertently—confuses statements which we made last year concerning our expectations of Merger-related layoffs from any overlap of AT&T and SBC Arizona operations with reductions at AT&T call centers resulting from the 2004 decision to leave the mass market. During the Merger hearings, we repeatedly stated that significant layoffs resulting from the Merger were unlikely because "there is likely to be little overlap" between SBC and AT&T. See Rebuttal Testimony of Rick Moore dated July 8, 2005, p. 4 (emphasis added). The February 2006 reductions at the Mesa Call Center did not result from any overlap of AT&T and SBC Arizona operations. Rather, as the record clearly and repeatedly indicates, it is undisputed that the February 2006 Mesa reductions resulted from AT&T's withdrawal from the residential and small business market and had nothing to do with the SBC/AT&T Merger.

At the July 21, 2005 Merger hearing, Mr. Peltó again described AT&T's decision to stop marketing to residential and small business services, and stated that: "There was a time when AT&T was very active in Arizona, utilizing UNE-P to provide service to residential and small business customers. Approximately one year ago [July 2004], the company made a decision to cease marketing to those customers across all 50 states, including Arizona. And some of the layoffs and other things that have been discussed are 100 percent attributable to that decision and not in any way related to the merger." See Testimony of Tom Peltó, July 21, 2005 Hearing Transcript, p. 21.

Throughout the Merger proceedings, AT&T candidly told the Commission that additional AT&T layoffs and closings may occur. For example, in response to questions posed by you at the July 21 hearing, Mr. Peltó testified as follows:

BY COMMISSIONER MAYES: Mr. Peltó, on page 7 of Mr. Bostwick's testimony, which incorporates some of the answers to my letter, Mr. Bostwick states that the parties

indicate, and I think you just said this, there is no plan to close any facility in Arizona at this time. That doesn't suffice as a promise not to close any facilities, does it?

A. That is correct.

Q. So within a year of this merger, is there a possibility that you could close facilities in Arizona?

A. Yes, I would have to acknowledge that that would be a possibility.

Q. Thank you. You also state, or Mr. Bostwick states, that you responded that there are no detailed plans to reduce personnel in Arizona at this time... Are there any plans of any kind to reduce personnel in Arizona?

A. No. To my knowledge there are no plans either detailed or nondetailed.

Q. But that again is not a promise that you won't engage in reductions in force after the merger, is it?

A. That is correct.

Q. So you could further reduce AT&T's employment in Arizona within a year of the merger?

A. Yes, that cannot be ruled out.

See Testimony of Tom Pelto, July 21, 2005 Hearing Transcript, pp. 49-50.

During the hearings, you also asked questions relating to "any plans by SBC to reduce personnel in Arizona after the merger." SBC's Rick Moore answered as follows: "No, there are not. But what we really meant by that statement, Commissioners, is that we have not done the detailed assessment of how many employees we have doing what function and how many employees they have doing what function and how those might be consolidated." See July 21, 2005 Hearing Transcript, p. 99. Mr. Moore explained that it was not likely layoffs would occur as a result of the Merger because there was little overlap and duplication of services with AT&T given that SBC had such a small presence in Arizona. Id. at pp. 100-101.² Again, the 2006 job reductions at the Mesa Small Business Center were not the result of any overlap in services between AT&T and SBC resulting from the Merger.

Further, on pages 105-106, Mr. Moore explained that the proper way to analyze whether layoffs and closings are the result of the Merger is by comparing AT&T as a stand-alone entity with the combined AT&T/SBC entity. The following exchange between you and Mr. Moore on pages 105-106 of the hearing transcript illustrates that point:

THE WITNESS (MR. MOORE): I think we can [supply information on job functions]. I only worry, Commissioner, that the data by itself would not be sufficient to make the judgment, and even if you had everything to make the proper judgment about the job reductions, I think you'd still have to ask yourself, in the absence of the merger, what

² In the Merger proceeding, SBC filed an exhibit indicating the number of SBC employees in Arizona. See Notice of Late-Filed Exhibit dated July 28, 2005. As of July 25, 2005, SBC employed only 42 employees in the state of Arizona.

would the job reductions be? And I guess I'm—I was hopeful that it would be possible to make the judgment today—just knowing how many employees each of these companies has, the inevitable trend that AT&T faces on a stand-alone basis...

COMMISSIONER MAYES: And I appreciate that....And obviously we'll take the very real question what kinds of reductions would occur absent the merger into serious consideration, a very relevant point.

In filings with the Commission during the Merger proceeding, CWA, in supporting the Merger, acknowledged that same fact: "It is clear that AT&T, as a stand-alone business, can only go in one direction, and that involves shrinking revenues, shrinking income, shrinking investment and shrinking jobs..." See June 15, 2005 letter from Joe Gosiger/CWA to Chairman Hatch-Miller.

You also asked whether the SBC/AT&T Merger might allow AT&T to re-enter the UNE-P residential and small business market in Arizona. On that issue, we responded that a merged AT&T would not re-enter the residential and small business markets in that way:

Q. And in terms of—going again to the question of what benefits there are associated with the merger for Arizonans and specifically the question of whether the merged company would rejuvenate AT&T's residential efforts, the answer I think from Mr. Peltó was pretty much no. Is that your sense of it? And if so, why?

A. If by rejuvenate we mean somehow trying to reinvigorate the UNE-P strategy that AT&T has employed in recent years, no, I would not expect that to be the case.

See July 21, 2005 Transcript, Testimony of Rick Moore, pp. 113-114 (emphasis supplied). Mr. Moore went on to describe ways, such as VOIP and wireless, that AT&T might use to once again develop mass market offerings as a benefit of the Merger. But, he was clear that the UNE-P strategy was over. Again, the Mesa layoffs are related to the continuing wind-down of that strategy. As you know, the Commission adopted that evidence in Finding of Fact 26 in Decision No. 68269:

The Companies reported that while there are no plans for AT&T to re-enter the residential or small business market, AT&T plans to strengthen its efforts to serve large business customers that have operations in several states and countries, and the Companies plan to expand AT&T's Call Vantage voice over internet protocol ("VOIP") service. See Decision No. 68269, p. 7, ¶ 26.

Finally, AT&T and SBC discussed these same issues at the November 3, 2005 Open Meeting. The exchange between you and me on pages 13-14 of the Open Meeting transcript is a good illustration:

COM. MAYES: As you know, one of my main concerns with this merger is the degree to which it could potentially affect employment in Arizona. And when I asked you, both companies, whether they had plans to lay people off, I think both companies said,

especially SBC, said that they had no detailed plans for any layoffs and they didn't believe—I think the words were they assumed—it was one could assume that given the fact that there's not a lot of overlap between the two companies' operations, there wouldn't be significant layoffs. Do you recall that?

MR. WATTS: Mr. Chairman and Commissioner Mayes, yes, I'm familiar with that testimony. I'm also familiar with the rationale for that testimony... Where you normally see employees with jobs that are eliminated as a result of transactions are in fact where you have overlaps. That's usually headquarters like functions. Frankly, that gets to corporate questions, none of which are in Arizona. We also have a happy coincidence in Arizona where the two companies' respective operations do not in fact overlap significantly. We, of course, don't have a large number of employees in Arizona for SBC in the first place. So I think there are a lot of reasons why that will likely be less of an impact in the state of Arizona.

You, of course, correctly understood exactly what was being said at that time as you followed up with a clarifying question:

COM. MAYES: But you're not promising that there won't be layoffs in the state of Arizona?

MR. WATTS: Mr. Chairman and Commissioner Mayes, I could not make that promise.

See November 3, 2005 Open Meeting Transcript, pp. 13-14 (emphasis added).

III. AT&T HAS FULLY COMPLIED WITH DECISION NO. 68269.

At page 2 of your letter, you ask several questions which I'll now address. To start, you ask "why AT&T chose not to comply with the 60-day provision contained in the Order and why it has so far not complied with the provision mandating a report on the layoffs." The first ordering paragraph on page 16 of Decision No. 68269 requires 60 day prior written notice to the Director, Utilities Division and the Commissioners of "any planned merger-related Arizona workforce layoffs; any planned merger-related Arizona plant closings; and any planned merger-related Arizona facility closings." As I've discussed, the reductions at the Mesa Call Center were not "merger-related" and therefore no notice was required.

As a courtesy, however, our in-house and outside counsel did place calls to the Commission's Legal Division and to each Commissioners' office on February 16 and 17 advising of the planned layoffs. The basic content of each of those conversations or voice-mails was that approximately 50 employees in the Mesa Call Center would receive surplus notice letters; employees would be given the opportunity to follow their work to another work center; the employee group impacted provides customer service to small business consumers; and the layoffs are not related to the Merger, but relate instead to the decision of the pre-Merger AT&T in July 2004 to stop marketing to consumers and small business.

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AT&T has complied and will continue to fully comply with all provisions of Decision No. 68269. As you mention in your letter, we did in January deliver to the Director, Utilities Division and the Commissioners a notice of one Merger-related layoff. We soon will file the report with the Commission concerning that single layoff as required by the second ordering paragraph on page 16 of Decision No. 68269.

You also asked "what the Company has done to attempt to find alternative work for the affected individuals." AT&T gave those employees the opportunity to follow their work to AT&T's call center in Reynoldsburg, Ohio pursuant to the Collective Bargaining Agreement ("CBA") with the CWA. Specifically, AT&T offered those employees a job with the same title in Reynoldsburg, Ohio—a legacy AT&T call center—along with a relocation expense allowance based on years of service up to \$13,000. Ten of our employees accepted that offer. In making that offer, AT&T fully complied with the job security agreement in the December 11, 2005 CBA with the CWA. Under that Agreement, AT&T agreed to offer laid-off employees an available position in the same Force Adjustment Region (if available) and, if not available, an available position nationwide. The CBA does not require AT&T to offer those employees a position with the same title as AT&T did here, but AT&T did so nonetheless.

The CWA negotiated and signed the CBA after the Merger occurred. To say the least, I find it curious that Mr. Blackburn complains about the Mesa Small Business Center reductions when such reductions were expected under the December 2005 CBA and AT&T followed all procedures for carrying out such reductions under the CBA, including notification of the CWA and the offering of alternative employment to the affected employees.

IV. RESPONSES TO ADDITIONAL QUESTIONS IN THE APRIL 6, 2006 LETTER.

Let me respond to the additional questions contained in your letter:

1. When did the Company decide to close the Mesa Small Business Customer Care Center? Did this decision occur before or after the Merger with SBC was approved? The decision was made after the Merger occurred in November 2005. The decision to eliminate jobs at the Mesa Small Business Center was made by AT&T in an executive leadership meeting on February 16, 2006. In accordance with the CBA, AT&T notified the CWA on February 16, 2006. AT&T provided official notice to employees on February 17, 2006. As a courtesy, AT&T notified the Commission and the Governor's office at the same time.

Based on pre-Merger cutbacks, the Mesa Small Business Center only had 57 non-management employees remaining and, given the declining call volume and small business customer base supported by that center, AT&T determined that maintaining those functions at the Mesa facility would be inefficient and costly as compared to the remaining call centers in Reynoldsburg and Indianapolis which have 175 employees each. Based on this analysis, AT&T determined that its call volumes and customer base had declined to such an extent by February

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that the Mesa Small Business Center function was no longer supportable. AT&T then decided to relocate the Small Business Center functions to Reynoldsburg.

2. What is the timeline surrounding the recent decision by AT&T not to close a call center in Pittsburgh, PA? When did the Company decide to close this center and when did the Company reverse course and decide to keep the center open? At the same leadership meeting which determined that the Mesa Small Business Center functions would be ended, AT&T also decided that the Pittsburgh Call Center was to be closed. As you may already be aware, the decision to reduce jobs at the Mesa facility was part of an ongoing consolidation project undertaken with respect to legacy AT&T call centers resulting from AT&T's withdrawal from residential and small business markets. On the same day that a decision was made to reduce jobs at the Mesa facility (February 16), AT&T also decided to close similar legacy AT&T call centers serving the consumer long distance and bundles market segments in Pittsburgh, Pennsylvania.

Shortly after announcement of the planned reductions in Mesa and Pittsburgh, AT&T was contacted by a variety of people and interest groups requesting that we reconsider the closing of the Pittsburgh center. Because those communications involved many different people and took place over a period of several weeks, I am not in a position to provide you with an exact timeline of that process.

What I can tell you is that, in response to a request from the governor of Pennsylvania, received shortly after we made our announcement, we revisited our decision to eliminate jobs in Pittsburgh. On March 31, we announced a temporary reversal of our decision to close that center. As part of that announcement, however, we made it clear that we continue to anticipate that the customer base served by legacy AT&T call centers like the one in Pittsburgh will continue to decline and that, while we would do our best, further closures—including the Pittsburgh facility—are likely in the future.

More than six weeks after the decision to reduce jobs at the Mesa Call Center, we and our employees are well into the process. A decision to reverse course would be very disruptive to both us and them. Several of the employees who elected to follow their work are undoubtedly making arrangements to relocate.

3. Did this decision impact the decision to close the Mesa Small Business Customer Care Center? Will the ten employees moving from the AT&T Small Business Customer Care Center in Mesa to Reynoldsburg, Ohio be working in an AT&T or SBC building? No decision with respect to the Pittsburgh Call Center had any impact on AT&T's decision to make reductions at the Mesa facility. As noted, AT&T's decision to reduce jobs at the Mesa Center was based on its comparatively small size, declining call volume and declining customer base.

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Ten AT&T employees have indicated that they will follow their work to the AT&T call center in Reynoldsburg, Ohio—about 15% of the Mesa employee reductions. The Reynoldsburg call center is a pre-merger AT&T facility. It is not an SBC call center.


V. CONCLUSION.

In your April 6, 2006 letter, you suggest that there should be an evidentiary hearing on the AT&T/BellSouth Application. I have great difficulty understanding what a hearing would accomplish because the Commission would not have any Arizona issues to decide relating to the BellSouth merger. BellSouth is not a Class A utility in Arizona. It has no local service customers. It only provides resold long distance service. It doesn't have any Arizona employees or facilities. The limited services BellSouth Long Distance does provide are provided through a resale agreement with Qwest.

The BellSouth merger will not have any adverse impact on Arizona because there simply is nothing here to impact. The addition of BellSouth's financial strength and nine state footprint to AT&T, however, will further enhance the benefits of the SBC/AT&T Merger which we thoroughly discussed with you and the other Commissioners last year.

The bottom line, as Mr. Blackburn knows, is that the Mesa Small Business Center reductions are not related to the AT&T/SBC Merger and they certainly do not have any connection to the BellSouth merger. Less than two weeks ago, I made the written commitment to you and the other Commissioners that AT&T will honor our agreement regarding arbitration for controlled affiliates (including the post-Merger Cingular) regardless of legislation. We have stood by every one of the commitments we made to this Commission and we will continue to do so in the future.

Very truly yours,

By: 
Wayne Watts

TCW/plp
1355220

Original and 23 copies filed
with Docket Control this 11th
day of April, 2006.

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Commissioner Marc Spitzer (hand-delivered)
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